

Share Capital

Asst. Prof. Anshul Garg

Introduction

- Share capital is the money a company raises by issuing common or preferred stock. The amount of share capital or equity financing a company may opt to have more than one public offering after its initial public offering (IPO). The proceeds of those later sales would increase the share capital on its balance sheet. It can change over time with additional public offerings.

Types of Share Capital

- Nominal Capital –The amount of capital with which the company intends to be registered
- Issued Capital –which is offered to the public for subscription
- Subscribed Capital –Part of issued capital for which applications are received from public
- Called-up Capital –The amount on the shares which is actually demanded by company
- Paid up Capital-The part of called up capital paid up by members of the company
- Reserve Capital -Money demanded by the company at the time of liquidation of the company

Problem-1

ILLUSTRATION 1. A company has ₹ 2,00,00,000 as its authorised capital divided into 10,00,000 equity shares of ₹ 10 each and 2,00,000 preference shares of ₹ 50 each. The company issued 8,00,000 equity shares and 1,00,000 preference shares. The public subscribed for 6,00,000 equity shares and 1,00,000 preference shares. ₹ 8 per share has been called on equity shares and ₹ 40 has been called on preference shares. All shareholders paid the amount. Calculate the amount of various types of share capital.

SOLUTION

Authorised Capital

10,00,000 Equity Shares of ₹ 10 each	₹	1,00,00,000	₹	
2,00,000 Preference Shares of ₹ 50 each		1,00,00,000		
		<u> </u>		<u>2,00,00,000</u>

Issued Capital

8,00,000 Equity Shares of ₹ 10 each		80,00,000		
1,00,000 Preference Shares of ₹ 50 each		50,00,000		
		<u> </u>		<u>1,30,00,000</u>

Subscribed Capital

6,00,000 Equity Shares of ₹ 10 each		60,00,000		
1,00,000 Preference Shares of ₹ 50 each		50,00,000		
		<u> </u>		<u>1,10,00,000</u>

Called-up and Paid-up Capital

6,00,000 Equity Shares of ₹ 10 each, ₹ 8 called-up		48,00,000		
1,00,000 Preference Shares of ₹ 50 each, ₹ 40 called-up		40,00,000		
		<u> </u>		<u>88,00,000</u>

Stock vs Shares

- Payment-Stocks are fully paid up whereas shares may be fully paid up or partly paid up.
- Numbering –Stocks are not numbered but shares are serially numbered.
- Nominal Value –Shares are of equal nominal value but stocks may be divided into unequal amounts.
- Denomination –Shares are generally of equal denomination but stocks may be of unequal amount.
- Transferability-Stock can be easily transferred but shares can not.

Classes of Shares:

- 1. **Ordinary shares** are the most common type of shares and are standard shares with no special rights or restrictions. They have the potential to give the highest financial gains, but also have the highest risk. Ordinary shareholders are entitled to voting rights, however, they are the last to be paid if the company is wound up.
- 2. **Non-voting ordinary shares** carry the same conditions as ordinary shares except with regards to voting rights. Shareholders may have voting rights under certain circumstances or they may have no voting rights at all.

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